

**LOUISIANA CITIZENS PROPERTY
INSURANCE CORPORATION**

Financial Statements and
Independent Auditor's Report

December 31, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9/17/08

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Independent Auditor's Report

To the Board of Governors
Louisiana Citizens Property Insurance Corporation

We were engaged to audit the accompanying financial statements of the business-type activities of the Louisiana Citizens Property Insurance Corporation (the Corporation) as of and for the year ended December 31, 2005, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management.

The Corporation has not maintained certain accounting records and supporting documents relating to transactions with its policy holders and vendors, nor is the Corporation's internal control adequate to provide safeguards over the Corporation's assets to assure the proper recording of transactions. Accordingly, we were unable to extend our auditing procedures sufficiently to determine the extent to which the financial statements may have been affected by these conditions. We were also unable to obtain written representations from management of the Corporation as required by generally accepted auditing standards.

The Corporation has excluded, from total assets in the accompanying statement of net assets, property and equipment which should be capitalized in order to conform with accounting principles generally accepted in the United States of America for both the current and the preceding fiscal year. The Corporation has elected to expense all capital assets as they are incurred. The principle effects of capitalization on the financial statements are not reasonably determinable. Further, the Corporation's current procedures and accounting system do not provide for the capture of financial information to create financial statements and disclosures which fully comply with generally accepted accounting principles, including deferred acquisition costs, capital and operating leases, contracts, and indirect cost allocations charged by their managing agent.

Since the Corporation has not maintained certain accounting records and supporting documents and did not have adequate internal controls, we were not able to apply other auditing procedures to satisfy ourselves as to the extent to which these financial statements are affected by these matters. Further, management was not able to provide us with written representations. Due to these matters, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2008, on our consideration of the Louisiana Citizens Property Insurance Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

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That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has elected not to present the Management's Discussion and Analysis information that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the basic financial statements. The accompanying Schedule of Governing Board is presented for purposes of additional analysis and is not a required part of the basic financial statements. We did not audit the information and express no opinion on it.



A Professional Accounting Corporation

July 11, 2008

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Net Assets
December 31, 2005

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 23,510,446	\$ 145,209,366	\$ 168,719,812
Premiums Receivable and Agents' Balances, Net	1,238,693	14,204,208	15,442,901
Regular Assessments Receivable	4,572,545	5,815,083	10,387,628
Reinsurance Receivable	2,842,817	55,893,062	58,735,879
Due From Other Funds	24,012,446	82,772	24,095,218
State Taxes Receivable	105,844	1,600,943	1,706,787
Total Current Assets	56,282,791	222,805,434	279,088,225
Liabilities and Net Assets			
Unpaid Losses	99,346,774	815,777,693	\$ 915,124,467
Unpaid Loss Adjustment Expense	18,580,713	162,124,302	180,705,015
Unearned Premiums	4,531,192	50,187,728	54,718,920
Servicing Fees Payable	686,227	7,968,270	8,654,497
Accrued Expense, Taxes, Licenses and Fees	133,201	1,392,104	1,525,305
Commissions Payable to Agents	353,950	3,475,425	3,829,375
Unearned Tax Exempt Surcharge	135,936	1,505,632	1,641,568
Other Liabilities	43,508	155,582	199,090
Due to Other Funds	82,772	24,012,446	24,095,218
Due to Managing Agent	141,110	1,120,695	1,261,805
Total Current Liabilities	124,035,383	1,067,719,877	1,191,755,260
Net Assets	\$ (67,752,592)	\$ (844,914,443)	\$ (912,667,035)

The accompanying notes are an integral part of these financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2005

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Operating Revenues			
Premiums Earned	\$ 7,659,480	\$ 87,138,829	\$ 94,798,309
Net Investment Income	275,013	2,038,603	2,313,616
Other Revenues	61,331	1,492,968	1,554,299
Total Operating Revenues	<u>7,995,824</u>	<u>90,670,400</u>	<u>98,666,224</u>
Operating Expenses			
Losses Incurred	115,567,779	843,068,114	958,635,893
Loss Adjustment Expenses	21,946,655	196,557,684	218,504,339
Underwriting Expenses	2,765,341	33,226,621	35,991,962
Total Operating Expenses	<u>140,279,775</u>	<u>1,072,852,419</u>	<u>1,213,132,194</u>
Operating Loss	<u>(132,283,951)</u>	<u>(982,182,019)</u>	<u>(1,114,465,970)</u>
Nonoperating Revenues			
Regular Assessments	63,586,723	129,853,862	193,440,585
Tax Exempt Surcharge	202,691	2,243,742	2,446,433
Total Nonoperating Revenues	<u>63,789,414</u>	<u>132,097,604</u>	<u>195,887,018</u>
Changes in Net Assets	<u>(68,494,537)</u>	<u>(850,084,415)</u>	<u>(918,578,952)</u>
Net Assets, Beginning of Year	772,405	5,346,600	6,119,005
Prior Period Adjustment	<u>(30,460)</u>	<u>(176,628)</u>	<u>(207,088)</u>
Net Assets, Beginning of Year - Restated	<u>741,945</u>	<u>5,169,972</u>	<u>5,911,917</u>
Net Assets, End of Year	<u>\$ (67,752,592)</u>	<u>\$ (844,914,443)</u>	<u>\$ (912,667,035)</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2005

	Enterprise Funds		
	Coastal Plan	FAIR Plan	Total
Cash Flows from Operating Activities			
Premiums Collected	\$ 7,590,386	\$ 77,874,252	\$ 85,464,638
Losses Paid	(19,383,783)	(91,545,890)	(110,929,673)
Loss Adjustment Expenses Paid	(3,493,979)	(36,289,024)	(39,783,003)
Underwriting Expenses Paid	(1,676,245)	(20,973,399)	(22,649,644)
Net Investment Income Received	275,013	2,162,189	2,437,202
Other Receipts	61,331	1,492,968	1,554,299
Net Cash Used in Operating Activities	(16,627,277)	(67,278,904)	(83,906,181)
Cash Flows from Noncapital Financing Activities			
Interfund Borrowing	(23,929,674)	23,929,674	-
Regular Assessments Received	59,014,178	124,038,779	183,052,957
Tax Exempt Surcharge Received	338,627	3,749,374	4,088,001
Net Cash Provided by Noncapital Financing Activities	35,423,131	151,717,827	187,140,958
Cash Flows from Investing Activities			
Investments Sold	-	7,419,222	7,419,222
Net Increase in Cash and Cash Equivalents	18,795,854	91,858,145	110,653,999
Cash and Cash Equivalents, Beginning of Year	4,714,592	53,351,221	58,065,813
Cash and Cash Equivalents, End of Year	\$ 23,510,446	\$ 145,209,366	\$ 168,719,812
Supplemental Disclosures of Cash Flow Information			
Cash Paid During the Year for Interest	\$ 7,579	\$ 118,115	\$ 125,694
Reconciliation of Operating Loss to Net Cash Used in Operating Activities			
Operating Loss	\$(132,283,951)	\$ (982,182,019)	\$(1,114,465,970)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities			
Increase in Premiums Receivable and Agents' Balances	(183,457)	(7,681,730)	(7,865,187)
Increase in State Taxes Receivable	(45,362)	(686,119)	(731,481)
Increase in Reinsurance Receivable	(2,842,817)	(55,893,062)	(58,735,879)
Decrease in Other Assets	-	409,677	409,677
Decrease in Investment Income Accrued	-	123,586	123,586
Decrease in Receivable from Service Provider	509,188	6,301,041	6,810,229
Increase in Unpaid Losses and Loss Adjustment Expenses	117,479,489	967,683,946	1,085,163,435
Decrease (Increase) in Unearned Premiums	112,357	(1,646,644)	(1,534,287)
Decrease in Accrued Taxes, Licenses, Fees, and Other Expenses	(44,573)	(784,807)	(829,380)
Increase in Commissions Payable to Agents	169,028	1,404,558	1,573,586
Increase in Servicing Fees Payable	422,779	5,881,429	6,304,208
Increase in Due to Managing Agent	141,110	1,120,695	1,261,805
Increase in Other Liabilities	(61,068)	(1,329,455)	(1,390,523)
Net Cash Used in Operating Activities	\$ (16,627,277)	\$ (67,278,904)	\$ (83,906,181)

The accompanying notes are an integral part of these financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Louisiana Citizens Property Insurance Corporation (the Corporation) was created in accordance with provisions of Louisiana Revised Statute (LRS) 22:1430, to operate insurance plans which provide property insurance for residential and commercial property, solely for applicants who are in good faith entitled, but are unable, to procure insurance through the voluntary market. The Corporation operates residual market insurance programs, throughout the State of Louisiana, designated as the Coastal Plan (succeeded the Louisiana Insurance Underwriting Plan) and the Fair Access to Insurance Requirements Plan, FAIR Plan (succeeded the Louisiana Joint Reinsurance Plan). The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway and the FAIR Plan is for property insurance above the Intracoastal Waterway.

The Corporation began operations on January 1, 2004, with its headquarters and corporate offices located in Metairie, Louisiana. It is governed by a board of directors consisting of 12 members, who serve without compensation. The Board consists of the Commissioner of the Department of Insurance, the State Treasurer, The Chairman of the House Committee on Insurance, The Chairman of the Senate Committee on Insurance or their designees, nine representatives appointed by the Governor, and two representatives appointed by the Commissioner of the Department of Insurance. During 2005 and since inception, the Corporation has not employed any personnel.

Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Corporation is considered a component unit of the State of Louisiana because the relationship with the state is such that the exclusion of the Corporation's information from the State's financial statements would cause the State's financial statements to be incomplete or misleading. The accompanying financial statements present information only as to the transactions and programs of the Louisiana Citizens Property Insurance Corporation, a component unit of the State of Louisiana. The Corporation is reported as an enterprise fund within the State of Louisiana's Comprehensive Annual Financial Report.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Corporation reports the following major proprietary funds:

The *Coastal Plan* accounts for all activities of the Coastal Plan. The Coastal Plan provides insurance on property located in the State of Louisiana between the Gulf of Mexico and the Intracoastal Waterway.

The *FAIR Plan* accounts for all activities of the FAIR Plan. The FAIR Plan provides insurance to areas of the State of Louisiana above the Intracoastal Waterway.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Generally, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Corporation has elected not to follow subsequent private-sector guidance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles, requires management to make certain estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

The determination of the unpaid losses and unpaid loss adjustment expense amounts are particularly sensitive estimates subject to change.

Cash and Cash Equivalents

The Corporation has defined cash and cash equivalents to include cash on hand and demand deposits.

Receivables

Premium receivables and agents' balances are reported net of amounts not collected within 90 days subsequent the balance sheet date.

Fair Value of Financial Instruments

The carrying value of cash, receivables and accounts payable approximates fair value due to the short maturity of these instruments and obligations.

Interfund Activity

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to or from other funds in the accompanying financial statements.

Reinsurance

In the normal course of business, the Corporation seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy.

Recognition of Premium Revenues

Revenues from written premiums are recorded as unearned premiums and recognized when earned, on a straight-line basis, over the contract period. The tax exempt surcharge assessed on all written premiums is recognized consistent with the premium recognition policy.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Unpaid Claims and Claim Adjustment Expenses

The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current earnings. The reserves for losses and loss adjustment expenses are reported net of estimated recoveries from reinsurance of approximately \$82,242,576 and \$10,062,470, respectively.

Deferred Policy Acquisition Costs

Commissions, service provider fees, and other costs of acquiring insurance that are primarily related to the production of new and renewal business are expensed as incurred and are reported as underwriting expenses in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. This policy is not consistent with accounting principles generally accepted in the United States of America, which require these costs to be deferred and amortized over the terms of the related policies.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Corporation, but which will only be resolved when one or more future events occur or fail to occur. The Corporation's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Corporation or unasserted claims that may result in such proceedings, the Corporation's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Corporation's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they arise from guarantees, in which case the guarantees would be disclosed.

Defining Operating Revenues and Expenses

The Corporation distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses consist of charges for insurance policies and the costs of providing such policies. All other revenues and expenses are reported as nonoperating.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes

Pursuant to Private Letter Ruling 160165-03 from the Internal Revenue Service, the Corporation constitutes an integral part of the State of Louisiana and its income is exempt from federal income tax.

Note 2. Stewardship, Compliance, and Accountability

Deposits and Investment Laws and Regulations

In accordance with state law, all uninsured deposits of the Corporation in financial institutions must be secured with acceptable collateral valued at the lower of cost or market or par. As of December 31, 2005, the Corporation's cash and cash equivalents were entirely insured or collateralized with securities held by its agent in the Corporation's name.

Deficiency in Net Assets

The Corporation reported a deficiency in net assets of \$912,667,035 at December 31, 2005, resulting from losses on insured property caused by Hurricanes Katrina and Rita. The Corporation plans to eliminate the deficit through regular and emergency assessments on affected insurance companies and policy holders.

Note 3. Cash and Cash Equivalents

The Corporation's cash and cash equivalents consist of the following at December 31, 2005:

	Carrying Amount	Bank Balance
Demand Deposits	\$ 168,719,812	\$ 293,622,827
Total	\$ 168,719,812	\$ 293,622,827

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk. As of December 31, 2005, \$293,522,827 of the Corporation's bank balance of \$293,622,827 was exposed to custodial credit risk. \$100,000 of deposits were secured by federal deposit insurance coverage, which was not exposed to custodial credit risk. The remaining deposits, which were exposed to custodial credit risk, were secured by the pledge of securities owned by the fiscal agent bank.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to the Financial Statements

Note 4. Regular Assessments Receivable and Revenue

LRS 22:1430 states that any insurer who engages in writing property insurance within Louisiana shall become an assessable insurer in the Coastal Plan and FAIR Plan. In the event that the Governing Board of the Corporation determines that a deficit exists in either the Coastal Plan or the FAIR Plan, the Corporation may levy regular assessments against assessable insurers for each affected plan in order to help offset such deficit. Furthermore, assessable insurers are permitted to recoup all regular assessments from their policyholders by applying a surcharge to all policies.

The Governing Board levied a 2005 Regular Assessment in the amount of \$193,440,585, which is an amount that equals 10% for the FAIR Plan and 5% for the Coastal Plan, of the aggregate statewide direct written premium for the subject lines of business for the calendar year 2004. The Corporation collected \$183,052,957 of the 2005 assessment and the remaining \$10,387,628 is reported as regular assessments receivable at December 31, 2005.

Note 5. Risk Management

The Corporation has a geographic exposure to catastrophe losses in the areas where its policy holders' insured property resides. These catastrophes can be caused by various events, including hurricanes, windstorms, hail, and flooding, and the incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes and severe flooding may produce significant damage in large, heavily populated areas. The Corporation generally seeks to reduce its exposure to catastrophes through the purchase of catastrophe reinsurance.

Note 6. Reinsurance Receivable & Concentrations of Credit Risk

Reinsurance contracts do not relieve the Corporation from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Corporation; consequently, allowances are established for amounts deemed uncollectible. The Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Corporation limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers or reinsurers on an automatic basis under general reinsurance contracts known as "treaties." The Corporation acquired catastrophe reinsurance coverage of \$305,000,000 per occurrence and \$610,000,000 in the aggregate for combined losses in excess of \$35,000,000 for a policy year beginning June 2005 and ending May 2006. The Corporation will bear a prorated risk of loss of 10% and the reinsurance carrier bears a prorated risk of loss of 90% of the reinsured losses. The Corporation would bear 100% of the risk for all losses in excess of the policy limits.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to the Financial Statements

Note 6. Reinsurance Receivable & Concentrations of Credit Risk (Continued)

The effect of reinsurance on premiums written and earned is as follows:

	<i>Written</i>	<i>Earned</i>
Direct	\$ 130,049,752	\$ 120,039,257
Assumed	-	-
Ceded	<u>(25,240,948)</u>	<u>(25,240,948)</u>
Net	<u>\$ 104,808,804</u>	<u>\$ 94,798,309</u>

The amounts of recoveries pertaining to reinsurance contracts that were deducted from losses incurred and loss adjustment expenses during 2005 were approximately \$292,758,328 and \$4,360,427, respectively.

Note 7. Related Party Transactions

The Corporation entered into an agreement for services with the Property Insurance Association of Louisiana (PIAL) effective January 1, 2004, whereby PIAL performs for the Corporation on a cost and expense reimbursement basis without profit, commission or fees to PIAL, such services as may be required to operate and administer the Corporation's business activities. During 2005, the Corporation and PIAL were governed by common board members and corporate officers. Operating expenses billed to the Corporation by PIAL for 2005 amounted to \$7,632,512. At December 31, 2005, unpaid amounts due to Property Insurance Association of Louisiana were \$1,261,805.

Note 8. Commitments

The Corporation entered into Service Provider Agreements with Bankers Insurance Group, First Premium Insurance Group, Inc., and MacNeill Group, Inc. to provide underwriting, policy issuance and administration, and claims processing services beginning October 1, 2005 and ending September 30, 2008. Policy administration services are performed for a fixed fee per application/policy and claims administration services are performed for a percentage of net loss paid, subject to a minimum and maximum dollar fee.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION

Notes to the Financial Statements

Note 9. Going Concern

Due to the catastrophic effects of Hurricanes Katrina and Rita, the Corporation incurred a deficit in net assets of \$67,752,592 for the Coastal Plan and \$844,914,443 for the Fair Plan at December 31, 2005. Louisiana Revised Statute 22:1430.16(E) states that in the event that a deficit is not remedied by the regular assessment described in Note 4, the Corporation may declare an emergency assessment. The amount of the emergency assessment in any year must not exceed either 10% of the remaining deficit or 10% of the aggregate statewide direct written premium for subject lines of business. Management intends to alleviate the deficit by issuing revenue bonds which will be retired using emergency assessments in future years.

Note 10. Subsequent Event

On April 5, 2006, the Corporation issued \$978,205,000 in revenue bonds. The bonds were issued to eliminate the Plan Year Deficit for 2005 resulting from Hurricanes Katrina and Rita. The bonds and interest will be payable from Emergency Assessment revenues during 2006 and subsequent years. The Series 2006B bear variable interest rates from 4% - 5.25% per annum and Series 2006C Bonds will bear interest at an Auction Mode Rate resulting from auction procedures.

Note 11. Other Contingencies

The Corporation is a defendant in various individual and/or alleged class action suits arising from allegations made for failing to timely and/or properly adjust and pay claims on insured property damaged during Hurricanes Katrina and Rita. The Corporation denies the allegations made in these suits and intends to vigorously defend itself. There are approximately 65,000 claims outstanding valued at about \$1,016,000,000 for Hurricane Katrina, and approximately 13,000 claims outstanding totaling about \$94,000,000 for Hurricane Rita. These claims are in various stages of administrative or judicial proceedings and the full depth of the Corporation's possible exposures is undeterminable at this time. The Corporation's counsel has estimated that the potential exposures could range roughly between \$1,055,000,000 to \$1,330,000,000, should a court decide against the Corporation in any of these matters, which would have a material adverse effect on the Corporation's financial position. The financial statements do not include accrual or provisions for loss contingencies that may result from these matters.

Note 12. Prior Period Entry

The Corporation's financial statements as of December 31, 2004, contained the following errors: (1) understatement of state taxes receivable by \$975,306, and (2) understatement of accrued expenses by \$1,182,394. Net Assets as of January 1, 2005, has been reduced by \$207,088 to correct the aggregate effect of the errors.

SUPPLEMENTAL INFORMATION

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Governing Board
For the Year Ended December 31, 2005

<u>Board Member</u>	<u>Appointing Agency</u>	<u>Compensation</u>
Jeff Albright	IIA of Louisiana	\$ -0-
Blaine Briggs	Louisiana Farm Bureau	-0-
Chad Brown, Chairman	Commissioner of Insurance - Designee	-0-
Mike Ely	Allstate Insurance Company	-0-
Joelle Lapeze	Hanover Insurance Company	-0-
Lee Mallet	Governor Appointee	-0-
John Milette	Travelers Insurance Company	-0-
Jim Napper	State Treasurer - Designee	-0-
Lori Pierce	State Treasurer	-0-
Bryon Stewart	Governor Appointee	-0-
Hal Stiel	PIA of Louisiana	-0-
Honorable Jim Tucker	House Insurance Committee - Designee	-0-



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Governors
Louisiana Citizens Property Insurance Corporation

We were engaged to audit the accompanying financial statements of the business-type activities of the Louisiana Citizens Property Insurance Corporation (the Corporation) as of and for the year ended December 31, 2005, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated July 11, 2008. We did not express an opinion on the financial statements because of various scope limitations.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Citizens Property Insurance Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses listed as 2005 - 14 through 2005 - 17, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will

not be prevented or detected by the Corporation's internal control. We believe that the significant deficiencies described in the accompanying schedule of findings and responses listed as 2005 - 4 through 2005 - 13, to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Citizens Property Insurance Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses listed as 2005 - 1 through 2005 - 3.

This report is intended solely for the information and use of the Board of Governors and the Louisiana Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



A Professional Accounting Corporation

July 11, 2008

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses
For the Year Ended December 31, 2005

2005 - 1 Reporting Requirements

<i>Criteria</i>	Louisiana Revised Statutes (LRS) 22:1430.14 and 22:1451 require quarterly and annual statutory statements to be filed with the Commissioner of Insurance for the Coastal Plan and the FAIR Plan. The annual statement is due March 1 st following the year end and quarterly reports are due prior to May 15 th , August 15 th , and November 15 th . LRS 24:513 and the <i>Louisiana Governmental Audit Guide</i> require the annual audit to be completed and submitted to the Legislative Auditor within six months subsequent to the close of the entity's fiscal year end.
<i>Condition</i>	The Louisiana Citizens Property Insurance Corporation's (the Corporation) filings were submitted well after the due dates as described above. The annual filing to the Commissioner of Insurance has not yet been filed. The Commissioner has entered into an agreement whereby the 2005, 2006, and 2007 filings will be accepted at a later date.
<i>Cause and Effect</i>	This condition was caused by the myriad of accounting problems that arose in the aftermath of Hurricanes Katrina and Rita. The effect of this condition was noncompliance with the aforementioned Louisiana Revised Statutes.
<i>Recommendations</i>	None
<i>Management's Response</i>	New management has worked diligently to rebuild the accounting data for the Coastal and the FAIR Plans. Management has set a timetable which will bring the Corporation into compliance with future filing requirements. According to that timetable, 2006 will be complete on July 31, 2008 and 2007 will be complete on September 15, 2008.

2005 - 2 Policy Take Out Program

<i>Criteria</i>	LRS 22:1430.23 requires, at least annually, the Corporation to offer its in-force policies for removal to the voluntary market. This is to encourage the ultimate depopulation of these residual market plans.
<i>Condition</i>	The Corporation's first policy take out program began in 2008.
<i>Cause and Effect</i>	This condition was caused by the high volatility in the insurance markets within the State and the significant reduction in the number of companies writing policies subsequent Hurricanes Katrina and Rita. The effect of this condition was noncompliance with the aforementioned Louisiana Revised Statutes.
<i>Recommendations</i>	None

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 2 Policy Take Out Program (Continued)

*Management's
Response*

New management has instituted the first program in 2008 and has developed procedures to ensure the program is continuous. The ultimate goal is the depopulation of the Corporation's premiums written and policies in force as well as to aid the public in obtaining affordable rates for their covered property. In June 2008, approximately 27,000 policies were depopulated. A second depopulation is scheduled for the fall of 2008.

2005 - 3 Board Minutes

Criteria

LRS 22:1430.2 defines Louisiana Citizens Property Insurance Corporation as a public body. LRS 42:7.1 mandates all public bodies shall keep written minutes of all of their open meetings. The minutes shall include at least (1) the date, time, and place of the meeting; (2) the members of the public body recorded as either present or absent; (3) the substance of all matters decided, and, at the request of any member, a record, by individual member, of any votes taken; (4) any other information that the public body requests be included or reflected in the minutes. It also provides that the minutes shall be public records and shall be available within a reasonable time after the meeting.

Condition

The Corporation was unable to provide board minutes for fifteen months between the periods of January 1, 2005 and December 31, 2007, as well as no sub-committee minutes since inception. Minutes for the meeting of the Governing Board that were made available to us were in many cases prepared months after the meetings were held. Copies provided to the auditors were not executed by the Governing Board and many appeared to be incomplete. References were made to additional documents which did not accompany the minutes.

Cause and Effect

The Corporation has not had a consistent corporate secretary and minutes may not have been prepared for the meetings in question. It appears that the entity is not in compliance with LRS 42:7.1 and 44:36 in the taking of minutes or the preservation of those public documents.

Recommendations

We recommend a minute book be kept as part of the permanent corporate records with board approved copies of the minutes of the meetings of the governing board and sub-committees. We further recommend that all resolutions approved and executed by the board be kept permanently.

*Management's
Response*

New management has appointed a corporate secretary and all minutes will be approved and executed by the Governing Board, kept permanently and made available to the public within a reasonable time after the meetings.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 4 Louisiana Plans Management System (LPMS)

<i>Criteria</i>	For proper controls over the premiums and claims cycles, the Corporation should have a policy management system that supplies relevant and accurate financial data to the general ledger system.
<i>Condition</i>	The Property Insurance Association of Louisiana (PIAL) contracted, on the Corporation's behalf, with a software vendor to develop and provide implementation, maintenance and support of the LPMS. LPMS was put into service on October 1, 2005, to process claims and manage policies. Management identified, subsequent to the end of the 2005 fiscal year, that the vendor had not completed many of the necessary functions within LPMS and that the data tables which feed the interface between LPMS and their accounting software were not being populated. Therefore, accounting transactions were either being recorded incorrectly or not at all. LPMS has also been unable to produce reliable statistics.
<i>Cause and Effect</i>	The cause appears to be errors made in the design and implementation of LPMS. The effect was a lack of controls over the premium and claims cycles. The system's failure to produce accurate or reliable financial information has had a significant impact on the Corporation's ability to produce accurate financial statements. The Corporation has incurred many subsequent costs for consultants, accountants, and analysts to accumulate and correct financial data as well as additional costs to repair the LPMS system.
<i>Recommendations</i>	Management should consider replacing LPMS or making changes so that it can be more effective.
<i>Management's Response</i>	Management has determined that the LPMS system should be replaced. A request for proposal (RFP) for a new system was released in July, 2008. The new system will be an "off the shelf" software that has been proven to be successful at other property insurance companies.

2005 - 5 Contract Review and Approval

<i>Criteria</i>	The Corporation's approved Plan of Operations §6(A)(9) delegates the authority to the CEO to execute contracts with vendors up to \$15,000 or up to public contract laws not subject to bid requirements without first obtaining approval from the governing board. All contracts exceeding the limitation require board approval.
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LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 5 Contract Review and Approval (Continued)

<i>Condition</i>	<p>The current management could not provide a listing of open contracts which existed during 2005. Access was provided to contracts which had been accumulated within the Corporations contract folder on their network, but we were unable to determine whether the data accumulated was complete in order to determine the Corporation's compliance with all contract provisions. It appears the Corporation does not have a consistent process for which services are solicited from outside vendors. A RFP process is evident in a few instances, but the majority of contracts do not provide enough information to make a determination. We were also unable to identify whether a policy or process exists for the selection of counsel and law firms regarding claims litigation suits or other professional service contracts. We identified two contracts executed between the Corporation and vendors by the CEO which exceeded the limitation that did not contain evidence of board authorization.</p>
<i>Cause and Effect</i>	<p>The condition arose from the lack of board oversight over the contract process and inconsistent procedures within the solicitation and acquisition of services from third parties. The effect is the inability to ensure compliance with disclosure requirements and the terms of the contract.</p>
<i>Recommendations</i>	<p>We recommend the Corporation comply with the regulations set forth within the Plan of Operations by obtaining required board approvals on contracts exceeding limitations or thresholds. We further recommend the Corporation establish a method for tracking open contracts to ensure compliance by vendors, monitor third parties payment requests in accordance with contract guidelines, provide necessary disclosure information under generally accepted accounting principles, and implement controls to avoid opportunities for misuse of authority. This method should include a listing of contracts, their terms, maximum approved consideration, and retention of executed copies.</p>
<i>Management's Response</i>	<p>Management will review its current process in obtaining goods and services from third parties and will ensure all contracts contain the necessary and required authorizations.</p>

2005 - 6 Conflicts of Interest

<i>Criteria</i>	<p>Having common management and common board members could potentially provide for a biased approach to corporate governance including, but not limited to, how funds are spent.</p>
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LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 6 Conflicts of Interest (Continued)

<i>Condition</i>	It came to our attention that there were conflicts of interest between the management of the Corporation and the management of their managing agent, the Property Insurance Association of Louisiana (PIAL). Predominately, all of the Corporation's operating expenses were incurred by and reimbursed to PIAL. PIAL provided all personnel including the Chief Executive Officer and the Chief Operating Officer, who held their positions with both entities. The entities also had common board members. We are aware that during 2007, the two entities began obtaining separate officers and board members and in 2008, the Corporation began hiring its own personnel.
<i>Cause and Effect</i>	The Governing Board did not provide sufficient administrative staff during the creation of the Corporation to ensure an appropriate level of authorization and review of the managing agent's functions. The effect was inadequate segregation of duties and controls between authorization of expenditures and disbursements of funds.
<i>Recommendations</i>	Board Members and employees should avoid situations where there could be conflicts with, or appear to have conflicts with, the interests of the Corporation.
<i>Management's Response</i>	The Corporation is currently managed by its own officers and directors, which are separate from the Property Insurance Association of Louisiana.

2005 - 7 PIAL's Contract Authorization & Reimbursement Requests

<i>Criteria</i>	Effective January 1, 2004, a contract for management and administrative services between PIAL and the Corporation was approved by the board and the Office of State Purchasing for a period of one year with options to renew for subsequent years not to exceed five years. The agreement stated that PIAL would operate without profit on an expense reimbursement basis and that PIAL was not authorized to enter into contracts on the Corporation's behalf without express authority of the Corporation's governing board.
<i>Condition</i>	During our contract review, we identified three contracts with costs ranging between \$130,000 and \$6 million, executed between PIAL and outside vendors on behalf of the Corporation containing no evidence of authorization from the Corporation's governing board. The costs of these expenses were reimbursed to PIAL by the Corporation as part of a monthly reimbursement request under their management agreement. In addition, a significant portion of the expenditures contained on the reimbursement requests were calculated based on an indirect cost allocation. The person responsible for establishing and calculating the allocation rates within PIAL was also the person who paid the invoices out of the Corporation due to common

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 7 PIAL's Contract Authorization & Reimbursement Requests (Continued)

<i>Condition</i> (Continued)	management of the two entities. We could not evidence approval of the indirect cost allocation rate by the Corporation's Governing Board or other management of the Corporation. We also could not evidence any support for how the rate was determined.
<i>Cause and Effect</i>	The Governing Board did not provide sufficient administrative staff during the creation of the Corporation to ensure an appropriate level of authorization and review of the managing agent's functions. The effect was inadequate segregation of duties and controls between authorization of expenditures and disbursements of funds.
<i>Recommendations</i>	All expenditures for the benefit of the Corporation must be approved by appropriate personnel within the Corporation prior to incurrence. Management should assign appropriate personnel to review and approve invoices prior to remittance of consideration.
<i>Management's Response</i>	New management has instituted written policies and procedures to ensure that expenditures incurred by the Corporation are approved at an appropriate level of management and payments for services are segregated from the authorization functions.

2005 - 8 Supporting Documentation for PIAL Invoices

<i>Criteria</i>	Authorization of vendor invoices cannot be performed effectively unless supporting documentation is provided as part of the request for reimbursement.
<i>Condition</i>	During our testing of the expense reimbursement requests from PIAL, the Corporation was unable to provide any supporting documentation other than a monthly system generated profit and loss statement of PIAL's operating activities and an indirect cost allocation. PIAL subsequently provided the supporting documentation for the items selected for testing to the auditors, but we remained unable to determine how the expenditures related to the Corporation. In addition, we could not evidence that the supporting documentation was reviewed by management prior to the disbursement to PIAL.
<i>Cause and Effect</i>	The cause appears to be a lack of oversight by the Governing Board over the authorization and review of the managing agent's requests for reimbursement. The effect was inadequate segregation of duties and controls between authorization of expenditures and disbursements of funds.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 8 Supporting Documentation for PIAL Invoices (Continued)

Recommendations We recommend all requests for reimbursement be accompanied by appropriate supporting documentation stating the business purpose for the expenditure.

Management's Response Beginning in 2008, the management agreement with PIAL was terminated and the management and operation of the administration functions of the Corporation began being performed by the Corporation's personnel. Invoices submitted for payment are required to have supporting documentation and an appropriate level of authorization prior to the disbursement of funds.

2005 - 9 Bank Reconciliations

Criteria For internal controls to be effective and for material misstatements to be detected, bank reconciliations should be performed monthly in a timely manner.

Condition Bank accounts were not reconciled timely. The Corporation contracted with outside consultants to perform the reconciliations for 2005, which were completed in early 2008.

Cause and Effect Due to the accounting problems that arose in the aftermath of Hurricanes Katrina and Rita and because of the errors in the LPMS system, it was not possible to reconcile bank accounts. The effect was inadequate controls over disbursements and receipts of funds.

Recommendations We recommend the Corporation assign qualified personnel to perform reconciliation functions under the supervision of senior personnel. We further recommend formal timelines be established for the completion of the reconciliation and the review functions to ensure bank adjustments are recorded timely within the financial records to support management reports and financial statements.

Management's Response The consultants have completed bank reconciliations for 2005 and 2006 and are now working on 2007. Once their work is complete, management will implement the recommendation as described above.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 10 Cash Disbursements

<i>Criteria</i>	An effective internal control over cash disbursements is for management to approve invoices prior to entry into the accounts payable system.
<i>Condition</i>	During our testing of cash disbursements, we could not evidence that management approved invoices prior to them being paid, nor were supporting documents cancelled after payment to prevent their re-use.
<i>Cause and Effect</i>	The cause appears to be insufficient accounting procedures in place to ensure proper authorizations are obtained prior to disbursements. The effect was inadequate controls over authorization of expenditures and disbursements of funds.
<i>Recommendations</i>	The approved invoice should be attached to the check when submitting for management's signature and the invoices should be canceled by indicating the date paid, check number, etc. on the invoice to avoid any potential duplicate payments. It is our understanding that management has changed its policy recently to incorporate management's review and approval of invoices prior to payment.
<i>Management's Response</i>	During 2007, new procedures were put in place to require an authorized approval on all vendor invoices. These supporting documents are attached to the check when presenting to management if a manual signature is required.

2005 - 11 Commissions Payable

<i>Criteria</i>	Under generally accepted accounting principles, commission payments made on unearned portions of the written premium should be reported as prepayment of commissions, not as a reduction in amounts owed to other agents.
<i>Condition</i>	During our testing of commissions payable, we identified that the current accounting procedures include commissions due to agents to be manually calculated based on total earned direct written premiums. The calculation includes a reduction for amounts actually paid to agents for commissions during the year. These payments include commission payments made on annual premiums (whether earned or unearned), since commissions are paid based on cash receipts from the insured. Management states that the Corporation's system is not capable of tracking and reporting prepaid commissions or a detailed schedule of commission payables due to individual producers/agents.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 11 Commissions Payable (Continued)

Cause and Effect The cause appears to be insufficient accounting procedures in place to ensure commissions payable due to individual producers/agents can be identified. The effect was an inability to substantiate amounts due for commissions payable at year end.

Recommendations None

Management's Response The accounting process has been changed to report commission payments on unearned premiums as "prepayments" in total, not by individual producers.

2005 - 12 Capitalization Policy

Criteria Under generally accepted accounting principles, the capital assets of the Corporation should be capitalized and depreciated within the basic financial statements.

Condition The entity has not adopted a capitalization policy, nor taken a physical inventory of fixed assets. All purchases have been expensed within the accounting records including, but not limited to, the LPMS system. In addition, many capital assets were reimbursed to PIAL through monthly requests for reimbursements. These assets were acquired by PIAL and reimbursed to them by the Corporation, raising ownership issues.

Cause and Effect The cause appears to be that the Corporation's accounting system was designed to comply with statutory reporting requirements and not the additional requirements under governmental accounting standards. The effect was an inability to identify the capital assets for which the Corporation owned and the inability to prepared financial statements under generally accepted accounting principles.

Recommendations We recommend management identify assets which were paid for by the Corporation and perform a physical inspection and inventory of these assets. We further recommend consulting with general counsel regarding the potential transfer of ownership to the Corporation of assets which were paid for and are being used in the operation of the Corporation that are the legal property of PIAL.

Management's Response Management has established a capitalization policy and will implement procedures to track assets to satisfy reporting requirements under governmental accounting standards. A physical asset inventory was completed in December 2007. It will be updated in 2008.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 13 Premiums & Claims

<i>Criteria</i>	<p>Internal control procedures and objectives over the premium and claim cycles as listed within the AICPA's Accounting and Auditing Guide for Property & Liability Insurance Companies include:</p> <ul style="list-style-type: none">• Input, output and data controls are maintained to ensure that all changes to the detail policy are processed properly.• Amounts included in commission calculations are reconciled to premiums written.• Policy endorsements and cancellations or other changes are approved; determinations of additional or return premiums are also reviewed.• Premiums register is balanced periodically to update premiums in force.• Premiums written are recorded in the general ledger and are reconciled periodically to premiums entered in statistical records and the premium register.• Deferrable costs are properly capitalized and amortized.• Supporting data for claims and compliance with company policies are reviewed before disbursement of claim payments.
<i>Condition</i>	<p>During the year ended December 31, 2005, it does not appear that the Corporation had in place a testing, balancing, and reconciliation function for the premium and claims cycles. Also, there appeared to be inadequate review of endorsements, cancellations or other changes to policies. Claims payments requested by service providers under \$25,000 for general claims and \$75,000 for catastrophic claims are currently not reviewed by the Corporation's personnel.</p>
<i>Cause and Effect</i>	<p>The cause appears to be a lack of oversight by the Governing Board and possibly due to management's inadequate experience in the property insurance industry. As a result, the Corporation experienced difficulties in the premiums and claims processes.</p>
<i>Recommendations</i>	<p>Management should institute a review of its internal controls over the premium and claims cycles and implement changes as considered necessary.</p>
<i>Management's Response</i>	<p>New management has begun the process of implementing many of the controls described above. Management will reevaluate its current controls over the premium and claims cycles to ensure that errors are identified in a timely manner. Due to the volume of Katrina/Rita claims, the service providers were granted increased authority to settle claims. Now that the bulk of storm claims have been processed, the service provider limits have been reduced and compliance reviews and audits have been instituted. Copies of the recent compliance reviews has been provided to the external auditors.</p>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 14 Employee Expense Reimbursements

<i>Criteria</i>	To ensure expenditures reported on the Corporation's financial reports are for the activities of the Corporation, all employee expense reimbursement requests must contain appropriate supporting documentation and authorization.
<i>Condition</i>	Invoices submitted by PIAL for reimbursement from the Corporation, selected for audit testing, contained items for their employees' expense reimbursement requests. In many instances, supporting documentation was not provided. Also, in some instances for which documentation was provided there was no identification of the business nature of the expense, nor could we identify whether these expenses related to the operations of the Corporation in other instances.
<i>Cause and Effect</i>	The cause appears to be a lack of oversight by the Governing Board over the authorization and review of the managing agent's requests for reimbursement. The effect was inadequate controls of cash disbursement functions.
<i>Recommendations</i>	We recommend that an expense report be used by all employees when requesting reimbursement for business expenses. This form should be standardized by the Corporation and include spaces for the date the expense was incurred, the amount, the business nature, and be accompanied by receipts or other supporting documentation. The expense report should be reviewed and approved by the supervisor of the employee submitting the claim for reimbursement. The expense report should be marked paid and filed in the same manner as other operating expense disbursements.
<i>Management's Response</i>	We have developed and are using a specific form for employee expense reports that requires receipts for any expenses greater than \$25.

2005 - 15 Accounts Payable

<i>Criteria</i>	To quickly establish control over unpaid invoices and allow the Corporation to have a more complete record of its accounts payable at any given time, accounts payable should contain all open invoices awaiting payment.
<i>Condition</i>	The Corporation's accounting procedures do not require invoices to be entered into the computer system prior to the check run on which they will be paid. The accounts payable personnel keep a manual open invoice file for those awaiting payment.
<i>Cause and Effect</i>	The Corporation is not utilizing the full capabilities of their financial software to track outstanding accounts payable. The effect was inadequate controls over unpaid invoices.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 15 Accounts Payable (Continued)

Recommendations We recommend that invoices be keyed into the computer system as they are received and approved to streamline, and improve controls over accounts payable and cash disbursement processing.

Management's Response This process has been changed as recommended above.

2005 - 16 Internal Audit Function

Criteria Internal auditing is an independent appraisal activity within a company for the review of accounting, financial, and other operations. The overall objective is to carry out a program of tests of the Corporation's financial and operational activities and transactions to provide management with information about the effectiveness (and efficiency) of established accounting and operational policies, procedures, and controls, and the extent to which they are being followed. In the course of gathering such information, the reliability of accounting and other data generated within the Corporation may be evaluated. Another objective is the prevention and detection of fraud through the performance of audit tests and procedures. Internal auditors aid management to effectively monitor each division's compliance with corporate policies and procedures and could help ensure that each division is accounting and reporting in a consistent manner.

Condition At present, the Corporation does not have an internal audit function.

Cause and Effect None

Recommendations We believe the Corporation has grown to a size and complexity that warrants the consideration of an internal audit function.

Management's Response Management will consider the recommendation to establish an internal audit function.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2005

2005 - 17 Accounting Policies and Procedures

<i>Criteria</i>	A well-devised accounting manual can help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management.
<i>Condition</i>	During our audit, we became aware that the Corporation does not have an accounting policies and procedures manual. Due to the volume of transactions and complexities involved with this industry, written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions that management performs.
<i>Cause and Effect</i>	The cause appears to be a lack of guidance by management in the development of sound accounting policies and procedures. The effect was an inability to identify whether procedures performed were as management intended.
<i>Recommendations</i>	It will take some time and effort for management to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.
<i>Management's Response</i>	Management is in the process of compiling an accounting and procedures manual.

Other Comments

The Compliance Audit Division of the Louisiana Legislative Auditor performed a compliance audit of the Louisiana Citizens Property Insurance Corporation and issued their report dated September 26, 2007. Copies of this report can be requested from the Legislative Auditor's Office at 1600 North Third Street, P.O. Box 94397, Baton Rouge, LA 70804 or through the internet at:

[http://app1.lia.state.la.us/PublicReports.nsf/C717CB9DF18B2240862573670051D067/\\$FILE/000016C4.pdf](http://app1.lia.state.la.us/PublicReports.nsf/C717CB9DF18B2240862573670051D067/$FILE/000016C4.pdf)

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
Schedule of Prior Year Findings
For the Year Ended December 31, 2005

Section I – Internal Control and Compliance Material to the Financial Statements:

2004 - 01 Initially Occurred in 2004

Condition The Corporation was not in compliance with State Laws and Regulations which require the annual audit be completed and submitted to the Legislative Auditor within six months of the close of the entity's fiscal year.

Status The 2004 annual audit report and financial statements have been finalized and submitted to the Legislative Auditor.

Section II – Internal Control and Compliance Material to Federal Awards:

Not Applicable

Section III – Management Letter:

Not Applicable